



**UNIVERSITI PUTRA MALAYSIA**

**THE PERFORMANCE OF PRIVATE UNIT TRUSTS IN  
MALAYSIA**

**PANG LOOI FAI**

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# THE PERFORMANCE OF PRIVATE UNIT TRUSTS IN MALAYSIA

by

PANG LOOI FAI

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TO MY DEAREST WIFE, PHEOBE AND SON, LUKE

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## LIST OF ABBREVIATIONS

<b>AHTP</b>	Amanah Harta Tanah PNB
<b>ASB</b>	Amanah Saham Bumiputra
<b>ASN</b>	Amanah Saham Nasional
<b>ASNB</b>	Amanah Saham Nasional Berhad
<b>ASW 2020</b>	Amanah Saham Wawasan 2020
<b>ATCM</b>	Association of Trustee Companies Malaysia
<b>CIC</b>	Capital Issues Committee
<b>EPF</b>	Employee's Provident Fund
<b>FMUTM</b>	Federation of Malaysian Unit Trust Managers
<b>IPO</b>	Initial Public Offering
<b>KLSE</b>	Kuala Lumpur Stock Exchange
<b>KLSECI</b>	Kuala Lumpur Stock Exchange Composite Index
<b>MER</b>	Management Expense Ratio
<b>NAV</b>	Net Asset Value
<b>PNB</b>	Permodalan Nasional Berhad
<b>SC</b>	Securities Commission
<b>SRO</b>	Self Regulatory Organisations
<b>SUTRA</b>	State Unit Trust Association

**YPB**

**Yayasan Pelaburan Bumiputra**

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by

**PANG LOOI FAI**  
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**Chairman: Associate Professor Annuar Bin Md Nassir, Ph.D.**

**Faculty: Economics and Management**

As investments in the Malaysian capital market become institutionalised, unit trusts are increasingly becoming the main vehicle for a retail investor to participate in the capital market. Unit Trusts are originally promoted to generate stable income with reasonable risks for medium to long term investors.

This study examines the performance of 27 unit trusts in Malaysia. Monthly data were collected over a 8 year period from 1990 to 1997. Performance is measured by the returns earned by the Unit Trust. However these returns must commensurate with the level of risk and therefore risk-adjusted performance measures are used. Performance evaluation is further refined by investigating the ability of

the Unit Trust manager to select correct investments at the right time i.e. his/her timing and selection performance.

The general findings of this study indicate that most Malaysian Unit Trusts generally underperform the market, are poorly diversified and generate low levels of returns. Of the 27 funds studied only 33% outperformed the market. However after adjusting for different risk levels, none of the funds were able to outperform the market. The average  $R^2$  was 0.516 indicating most funds were not fully diversified. Specifically most funds analysed attained half the level of diversification compared to the market portfolio which is used as the benchmark portfolio

The findings indicate that funds generally perform better during a bear market as compared to a bull market. Though the returns for unit trusts in a downtrending period was negative, the losses were less than the market portfolio, whereas in an uptrend period the returns of unit trusts were less than the market return.

The findings also indicate that the timing and selection ability of Unit Trust managers were poor with all funds having negative net



selection. Timing ability was only marginally positive for income growth funds.

This implies that in terms of the performance measured on the basis of returns per unit of risk and the level of diversification achieved by these funds, it would have been better for investors to invest on their own.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra  
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Master Sains

**PENILAIAN PENCAPAIAN AMANAH SAHAM SWASTA DI  
MALAYSIA**

Oleh

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**Fakulti: Ekonomi dan Pengurusan**

Pasaran modal di Malaysia kini lebih di dominasi oleh pelabur pelabur institusi dan Amanah Saham menjadi jentera utama bagi para pelabur runcit untuk membabitkan diri dalam pasaran modal . Amanah Saham dijangka meraih pulangan yang tinggi dengan risiko yang berpatutan untuk jangka masa sederhana dan panjang.

Kajian ini mengkaji pencapaian 27 buah Amanah Saham di Malaysia. Data bulanan bagi jangka masa 8 tahun dari 1990 – 1997 dianalisa dan prestasi ini dinilai berdasarkan pulangan yang diperolehi oleh setiap Amanah Saham. Bagaimana pun pulangan tersebut adalah berdasarkan paras risiko yang ditanggung. Oleh itu prestasi diukur

berbanding dengan risiko ditanggung. Penilaian pencapaian seterusnya diperinci kepada keupayaan pengurus Amanah Saham untuk memilih pelaburan yang sesuai pada masa yang sesuai iaitu menilai prestasi pemilihan dan pemasaan pengurus.

Hasil kajian ini menunjukkan, pencapaian kebanyakan Amanah Saham di Malaysia mempunyai prestasi di bawah paras pencapaian yang dijangka, kurang tahap mempelbagaian dan ada juga pulangan yang tidak setara dengan pulangan portfolio pasaran. Hanya 33% daripada 27 Amanah Saham yang di kaji mencapai tahap pulangan yang melebihi portfolio pasaran. Selepas menjalankan penyesuaian bagi paras risiko yang berlainan, tiada amanah saham yang berkeupayaan mencapai tahap pulangan yang melebihi pulangan portfolio pasaran. Purata  $R^2$  sebanyak 0.516 menunjukkan kebanyakan dana tidak mencapai tahap mempelbagaian penuh yang dijangkakan.

Hasil kajian ini juga menunjukkan bahawa dana pada umumnya mencapai prestasi yang lebih memuaskan dalam pasaran saham yang menurun berbandingkan dengan pasaran saham yang meningkat. Walaupun pulangan daripada Amanah Saham adalah negatif, dalam jangka masa penurunan pasaran saham, tahap kerugiannya adalah

kurang daripada portfolio pasaran. Manakala dalam jangka masa peningkatan pasaran saham, tahap pulangan Amanah Saham adalah kurang daripada portfolio pasaran.

Kajian ini juga menunjukkan prestasi pemasaan dan pemilihan pengurus amanah saham yang kurang memuaskan dengan semua dana mempunyai nilai pemilihan bersih yang negatif. Prestasi pemasaan yang positif hanya dicapai oleh dana yang berobjektif penumbuhan pendapatan.

Pada keseluruhannya penemuan menunjukan pengurus Amanah yang dikaji tidak mempunyai kemahiran pemilihan dan pemasaan yang cekap. Penemuan ini memberi implikasi bahawa dari segi prestasi yang diukur dari segi pulangan setiap unit risiko dan tahap mempelbagaian pelabur mungkin mendapat meraih keuntungan yang lebih baik jika melabur duit secara individu.

## **CHAPTER I**

### **BACKGROUND OF UNIT TRUSTS**

#### **Introduction**

Unit Trusts are a form of collective investment scheme, where capital of investors with similar financial objectives are pooled and funds subsequently managed by an appointed party. This allows investors to participate in investments that as individual investors they might not be able to make due to their low level of funds or expertise. In some countries these collective investment schemes are termed as mutual funds rather than unit trusts. The difference lies in their legal structure, namely mutual funds are investment companies that issue redeemable shares whereas unit trusts, are not companies and issue units instead of shares. In Malaysia, collective investment schemes are in the form of unit trusts, however these schemes are commonly called funds, and this term would be used synonymously with unit trust in this study.

## History of Unit Trusts/Mutual Funds

Collective investment schemes started in Europe 176 years ago when King William I of Belgium established a closed-end fund called *Societi General de Belgique* in 1822. However the *Foreign and Colonial Government Trust* established in London in the late 19th century formed the basis of today's unit trusts.

In the United States, collective investment schemes are structured as mutual funds with the first established in 1924 called the *Massachusetts Investors Trust*. Mutual funds in America became popular in 1940 and subsequently had a market capitalisation of one billion dollars by 1945 and a trillion dollars in 1991. As at end of 1996, the aggregate size of the industry stood at US\$3.03 trillion.

In Asia the unit trust industry is relatively new. However by 1996 it had a value of more than US\$700 billion. At that time the Malaysian Unit Trust industry had a value of US\$30 billion which is 4% of the Asian value.

**Table 1**  
**Value of unit trust industries**

Country/Area	Value US\$ (billion)
United States	3,030
Asia	700
Malaysia	30

Source: Securities Commission Homepage

The value of unit trust industries in the United States, Asia and Malaysia are compared in the table above. The table shows Malaysia's unit trust industry having a value of US\$30 billion (and this accounts for less than 10% of the market capitalisation of the KLSE) as compared to the United States of US\$3,030 billion. The information in the table shows that Malaysia's unit trust industry is at its infancy compared to the United States. This implies that collective investments of this nature in Malaysia are not yet a significant part of the capital market.

### **Advantages of Investing in Unit Trusts**

The main reasons for selecting unit trusts as a vehicle for investments are expert management, service, diversification, opportunities and liquidity.

Fund managers trained in security analysis, devoting their full time to carrying out the fund investment objectives as specified in the prospectus manage funds. They constantly monitor the performance of the fund, adjusting its composition to earn maximum returns.

In addition to the above-mentioned expert management, a fund is able to minimise and spread its risk. A fund's risk is equated with the variability of its return, meaning that the higher the variability of a fund's expected return the higher the risk. Risk can also be equated with holding similar securities. Therefore risk can be spread and minimised by holding dissimilar securities, through diversification. The large size of funds available would enable risk to be reduced through diversification. This involves spreading the risk over a broad portfolio of securities and bonds in different companies, sectors, countries or regions. A fund would also have an advantage of a broader range of securities than an individual investing on his own. Though funds would seek to minimise their risk, each fund would have its own risk preference level and degree of diversification depending on its stated objectives. For example, some funds invest in riskier securities in the hope of higher returns in the short term and others in less risky securities for lower but stable returns.



Liquidity means that investors can easily sell some or all of their units back to the management company. This ability allows him to convert the units to cash without much sacrifice of time.

### **How Unit Trusts can be Valued at their NAV (Net Asset Value)**

Unit trusts obtain money by selling units to investors. This money is pooled and then used to purchase investments in the form of securities, property and etc. The investments are referred to as the fund's assets and the fund's value changes according to changes in the investment's market values. The value of each unit is directly linked to the fund's assets as the value of the fund is divided into units of equal value. This net asset value (NAV) of the fund is the value of the underlying investments less fees and expenses.

### **Unit Prices**

Using the NAV figure, fund managers determine the buy and sell prices, namely amount the investor obtains when he/she wishes to liquidate or sell back the units to the fund and the price they sell the units to the investor. These are arrived at when the fund's investments are revalued everyday to reflect their current market prices. Thus the